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MAY REVISION GOVERNOR'S BUDGET 1988-1989

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GEORGE DEUKMEJIAN
GOVERNOR
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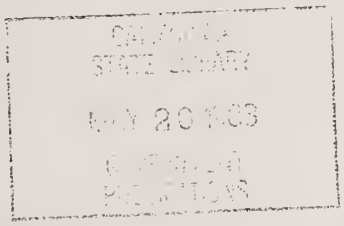
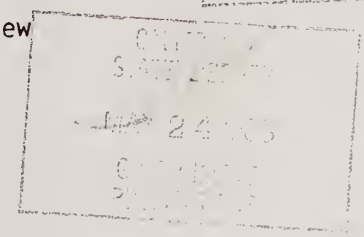
STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Governor

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR

May 20, 1988





Honorable William Campbell, Chairperson
Joint Legislative Budget Committee

Honorable Alfred E. Alquist, Chairperson
Senate Committee on Budget and Fiscal Review

Honorable Robert Presley, Chairperson
Senate Appropriations Committee

Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Gentlemen:

MAY REVISION

I am pleased to submit to you the May Revision which provides a complete update of revenues and expenditures, as well as a full accounting of the State Appropriations Limit for the current and budget years.

As you are aware, it was discovered late last month that the State is experiencing a General Fund revenue shortfall. The May Revision report addresses that shortfall and the proposed actions necessary for California to end the current and budget fiscal years with a balanced budget.

I am available to discuss this Revision with you at your convenience.

Very truly yours,

JESSE R. HUFF
Director of Finance

B:8222

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May Revision Overview

Revenue

General Fund Revenues and Transfers are now expected to be $32.6 billion in the current year and $36.1 billion in the budget year. This represents a drop from the January Budget forecast of $1.1 billion in the current year and $0.2 billion in the budget year. Income taxes, both personal and corporate, are almost entirely responsible for this shortfall.

It became evident in April of this year that despite a stronger economy, the State would be facing a drop in revenues. The weak corporate payments in March were followed by even weaker personal income tax payments in April. Although the data needed to pinpoint the exact cause is still being collected, it is clear that both individuals and corporations owed significantly less in California taxes this year than originally thought. Since all economic indicators are even more positive than we anticipated in January, it is clear to us that some intervening environmental factor is the cause. The only major change in the environment was the enactment of two major pieces of legislation which totally rewrote our tax code and conformed our state law with federal law. It is our belief that the revenue losses due to tax reform were actually higher than anticipated, while the gains were not fully realized. Our proposal is to move toward revenue neutrality.

Our forecast, therefore, assumes the enactment of pending conformity legislation which is estimated to raise $250 million. Further, we are proposing tax corrections totaling $550 million. Detailed discussion is contained in the Revenue Section of this report.

Expenditures

As the result of caseload changes and expenditure reduction proposals, current year expenditures have decreased by appoximately $150 million. In making these reductions we have attempted to avoid items that would have a detrimental program impact and instead focus on recovering unused funds and capturing efficiencies. Additionally, since the presentation of the Governor's Budget some proposed items of expenditure have been rescheduled from the current year to the budget year. With regard to the traditional caseload items, our January expenditure estimates were quite accurate.

In the 1988-89 fiscal year, traditional May Revision expenditures, in addition to augmentation requests proposed prior to this date, have resulted in additional General Fund costs of approximately $240 million. The primary components of this increase are caseload and population increases in Medi-Cal and Social Services, and increased interest costs due to additional General Fund borrowing. Additionally, some increased General Fund expenditures have resulted from various capital projects which have been shifted to the General Fund as a result of a shortfall in Tideland Oil revenues.

The General Fund revenue shortfall described above drastically reduced the current year reserve. The budget proposed in January considered the carryover to the 1988-89 fiscal year of $935 million in reserves. Now as a result of the shortfall that carryover will be as low as $53 million. The need to reexamine our previously proposed expenditures is self-evident. Because we are beginning the budget year with the reserve essentially depleted and an upward pressure on expenditures due to increased caseload, we concluded that budget year expenditure reductions were an integral part of the solution to the problem. These reductions total approximately $300 million. In making these reductions, we have tried to enact cuts as evenly as possible. We have focused first on those program expansions originally proposed in the January budget that can be postponed without seriously impacting programs. Next we have looked towards "belt-tightening" within our own State departments. Certain programs did not have the flexibility to tighten as much as others, and in those instances have been given lesser cuts. Finally, cost-of-living (COLA) increases for welfare recipients have been trimmed to the level of growth allowed for K-12 education.

State Appropriations Limit

In January, the Governor's Budget predicted that the State would end fiscal year 1987-88 at $50 million below the State Appropriations Limit and end fiscal year 1988-89 at $24 million below the Limit. In the wake of the current revenue shortfall situation, the State is currently $1.2 billion below the Limit in 1987-88 and is estimated to be $225 million below the Limit in 1988-89. However, we believe that action to correct the revenue shortfall should be taken in the budget year, which should generate an additional $550 million of revenue to the General Fund in 1988-89.

To allow for the use of that additional revenue, we are proposing a K-12 Education Subvention equalization measure similar to that enacted in connection with the 1987-88 budget. Under existing law, those school districts can request a transfer of a portion of the State's Appropriation Limit to the school district's limit by simply sending a letter to the Director of Finance. The law provides that a school district can request that transfer when that district is over its individual appropriation limit. To date, the State has received almost $300 million in letters requesting the transfer of Limit room from the State. However, inconsistent assumptions have been used by school districts in computing their limits which have generated overly restrictive interpretations of the limit within the school districts.

Our proposal intends to correct the above flaws for the 1988-89 fiscal year. We estimate that the State could capture about $400 million in new room as a result of the proposal, which would allow for expenditure of the $325 million in additional revenue generated by the corrective action and would leave a $75 million cushion under the maximum Limit amount.

1988-89 Expenditure Dollars (in Millions)

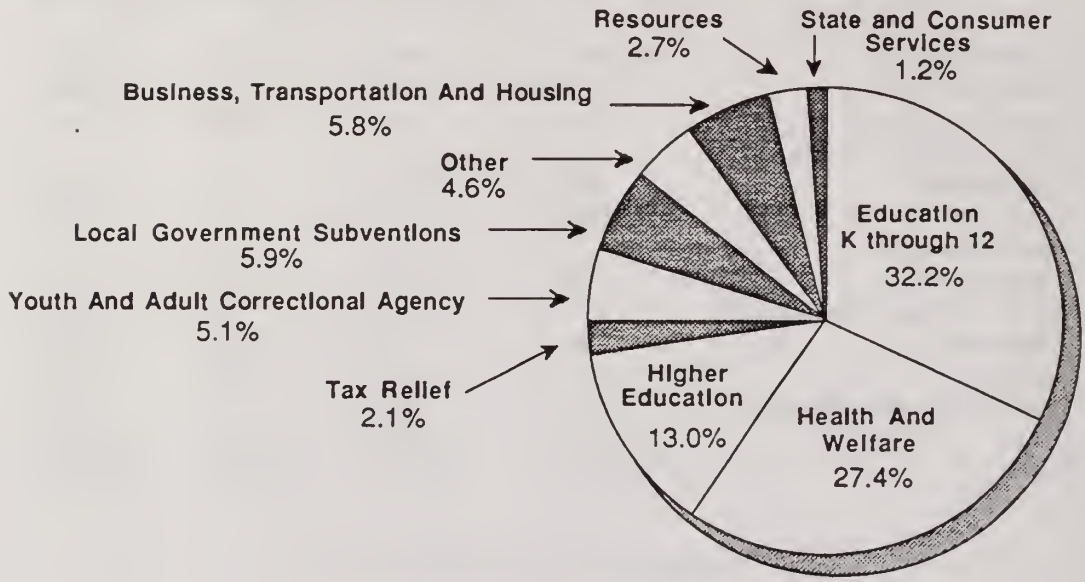
Function	General Fund Expenditures	Special Fund Expenditures	Bond Fund Expenditures	Total Expenditures
Education K-12	$13,505.3	$98.9	$1,000.0	$14,604.2
Health and Welfare	11,397.3	194.3	—	11,591.6
Higher Education	5,514.1	4.3	515.8	6,034.2
Business, Transportation, and Housing	61.8	2,377.1	—	2,438.9
Tax Relief	885.7	—	—	885.7
Local Government Subventions	0.5	2,513.2	—	2,513.7
Youth and Adult Correctional Agencies	2,124.4	15.2	329.0	2,468.6
Resources	688.7	445.9	376.8	1,511.4
State and Consumer Services	257.9	261.8	—	519.7
Other	1,647.4	297.4	0.5	1,945.3
Total	$36,083.2	$6,208.1	$2,222.1	$44,513.3

1988-89 Revenue Dollars (in Millions)

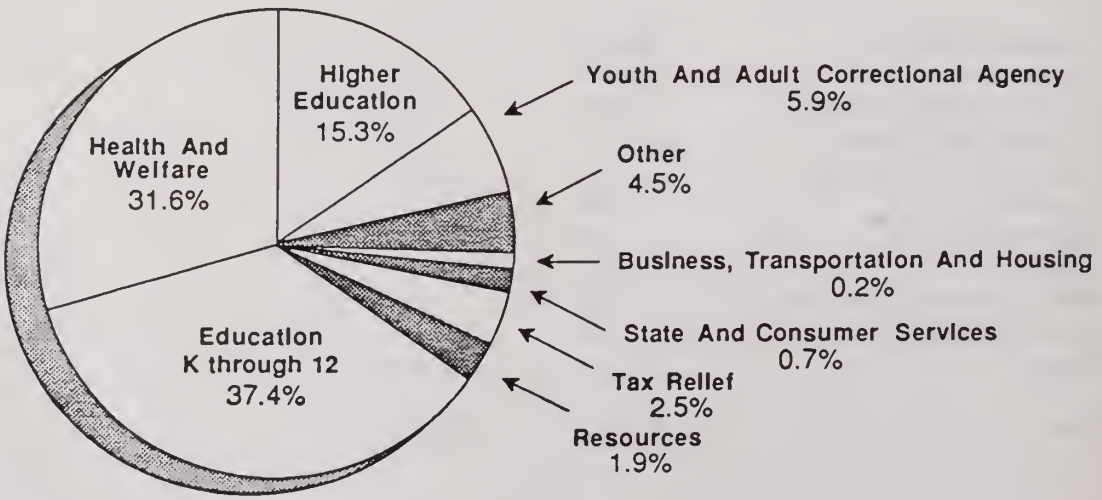
Source	General Fund Revenues and Transfers	Special Fund Revenues and Transfers
Personal Income Tax	$14,615	—
Sales Tax	12,571	$23
Bank and Corporation Taxes	5,515	10
Highway Users Taxes	—	1,300
Motor Vehicle License Fees	—	3,046
Insurance Tax	1,356	—
Cigarette Tax	174	74
Liquor Tax	128	—
Estate, Inheritance and Gift T	323	—
Horse Racing Fees	110	24
Other	1,260	1,355
Total	$36,052	$5,832

EXPENDITURES
1988-89 FISCAL YEAR

TOTAL EXPENDITURES
(Excluding Selected Bond Funds)

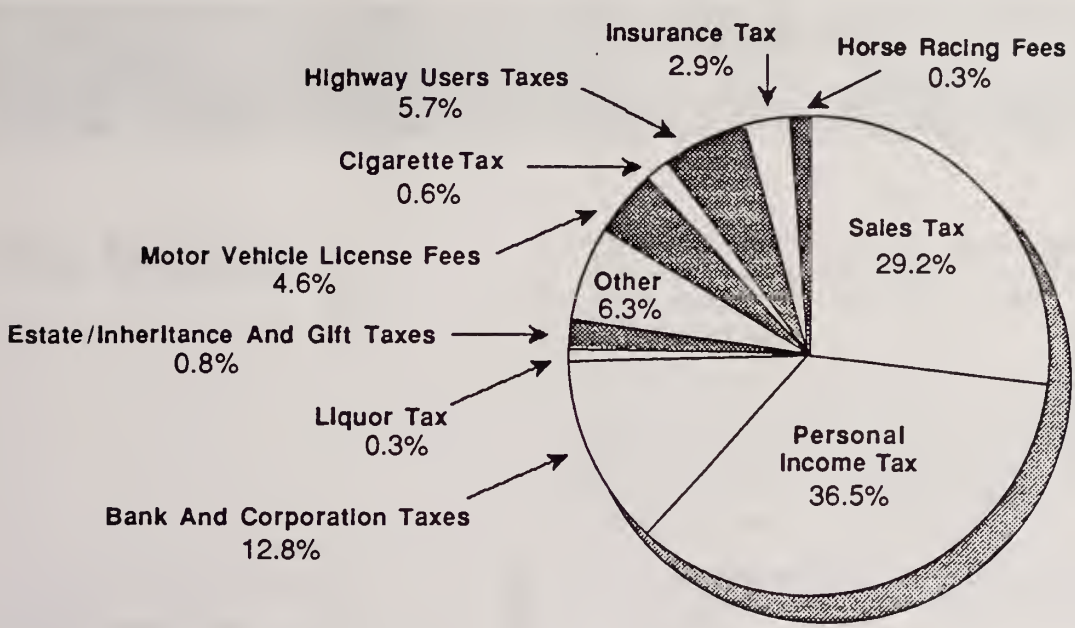


GENERAL FUND EXPENDITURES

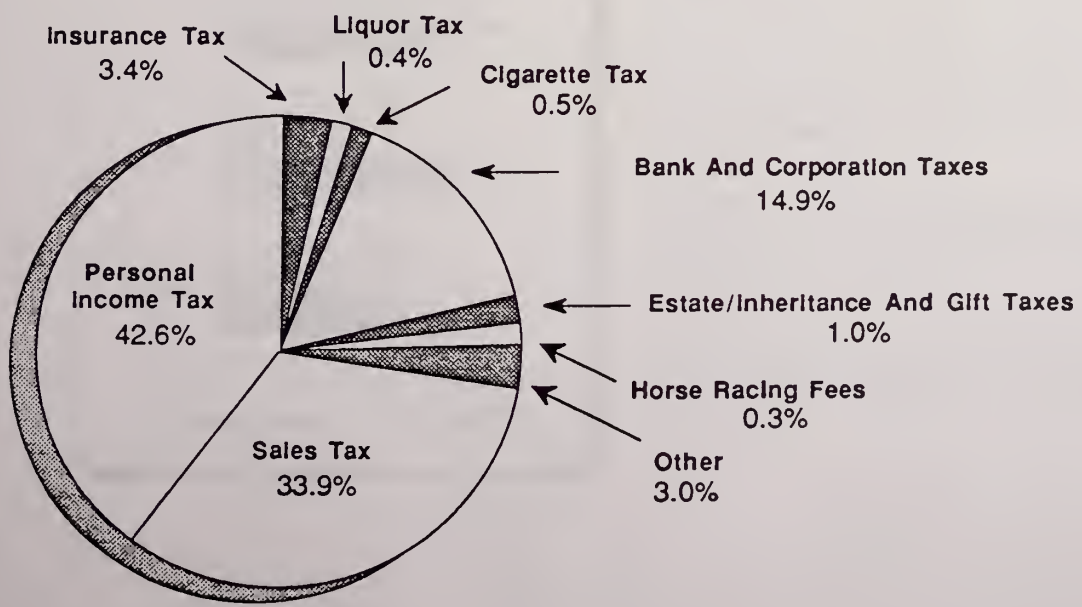


REVENUES
1988-89 FISCAL YEAR

TOTAL REVENUES AND TRANSFERS



GENERAL FUND REVENUES AND TRANSFERS



Economic Outlook

The Nation

The national economic outlook has strengthened somewhat since last November when the economic forecast was being prepared for the Governor's Budget.

At that time, the sharp drop in the stock market, resulting uncertainties over consumer attitudes and business investment plans, the steady decline of the U.S. dollar, and a massive foreign trade deficit complicated the forecasting process. Positive elements were difficult to find.

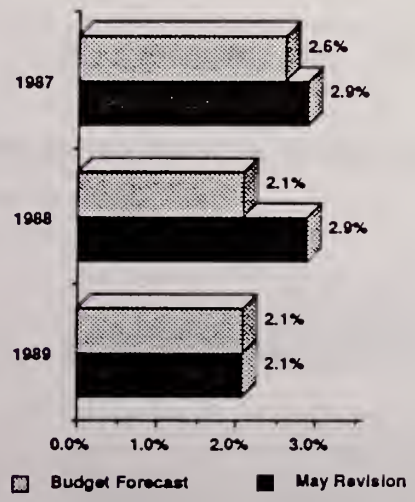
The forecast of the Department of Finance called for moderate growth — no strong expansion and no downturn.

Since then, the economy has performed better than expected. The stock market has reestablished more normal trading patterns. Consumers have maintained their spending levels. Business investment has accelerated, reflecting in part improved export opportunities with the decline in the dollar. The trade deficit has narrowed, with export growth outpacing the rise in imports.

Employment gains were substantial during the first quarter, with the jobless rate continuing to fall. Inflationary trends showed restraint. Interest rates were basically level.

Forecasts for 1988 have reflected this situation. The consensus forecast, in fact, has been moving up for the past four months as the earlier concerns dissipated.

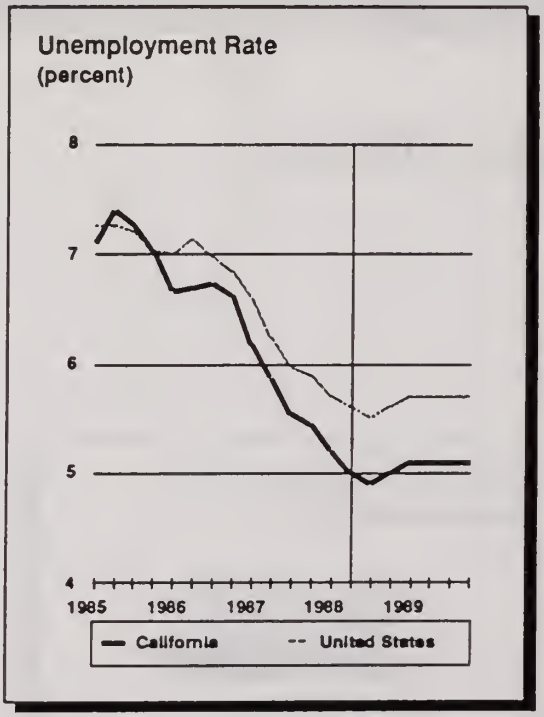
Real Gross National Product
(annual growth rate)



The Forecast

The latest forecast of the Department of Finance has also moved up. It can still be characterized, however, as one of moderate growth. Real gross national product is now expected to be up 2.9 percent in 1988, with an easing to a 2.1 percent gain in 1989. Consumer spending stays strong, investment accelerates, and the trade deficit continues to improve.

There are, of course, a number of elements which will bear watching in coming months. Business inventories are one of the most important. The surge in growth at the end of 1987 was due almost entirely to a $60 billion buildup in inventories. Much of this was involuntary, reflecting weaker-than-expected sales. The first quarter level was nearly as strong as that of last year's fourth quarter. The balance of 1988 is expected to see a resumption of more moderate accumulation.



Other investment is also firming, as both domestic and export sales prospects improve and capacity utilization rates remain high. Producers' durable equipment spending was sharply higher in the first quarter, due to a surge in orders for computer equipment. Continuation of strong business investment will be an important factor in maintaining the comparative advantage U.S. firms have gained in foreign markets with devaluation of the U.S. dollar.

Single family residential building is holding up well, although higher mortgage rates later this year are expected to put some constraints on activity. Multi-family housing continues to slump in response to 1986 tax reform measures which limited writeoffs.

Consumers maintain a good level of spending in most areas. High levels of credit in relation to income, price increases, and the prior surge in car sales combine to hold auto sales to 10.4 million this year, and 10.2 million next. Clothing purchases are also restrained by higher prices resulting from depreciation of the dollar. Other spending is generally strong.

Government does not provide the stimulus seen in prior years. Defense spending is virtually flat in real terms, as efforts to cut the Federal budget deficit are intensified. Nondefense spending shows some quarter-to-quarter swings attributable to crop support programs. The state and local sector is expected to post a 2.7 percent gain.

Corporate Profits

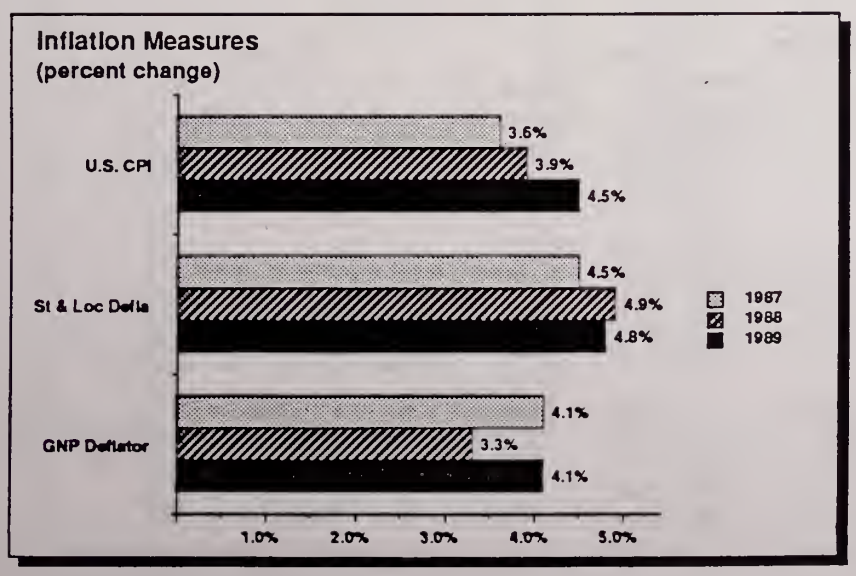
There are two areas of concern. The first is corporate profits, which are often difficult to forecast. This stage of the business cycle typically sees some softening of profits. In effect, the growth in business receipts begins to lag the rise in costs. With some questions remaining on the vitality of the current expansion and continued competition from foreign producers, for instance, many firms are likely to be reluctant to attempt significant price increases.

The forecast calls for a pretax profit gain of 1.7 percent this year, and a better than 16 percent rise in 1989.

Inflation

The second concern relates to inflation. Until now, price increases have been generally moderate. There is the potential for an acceleration of prices in coming months, however. Unexpectedly strong demand has begun to put pressures on basic industries. This pressure is already being reflected in higher raw commodity prices. The current forecast assumes that concerns with inflation lead the Federal Reserve to snug up on interest rates in coming months, but not to the extent which would suggest problems during the 1988-89 budget year.

Another issue is the higher minimum wage already in place in California and expected nationally within another year. While most workers are already above the minimum, the mere fact that the floor is rising will put upward pressure on other wages which are scaled up from the minimum. This will be reflected in gradually higher retail prices.



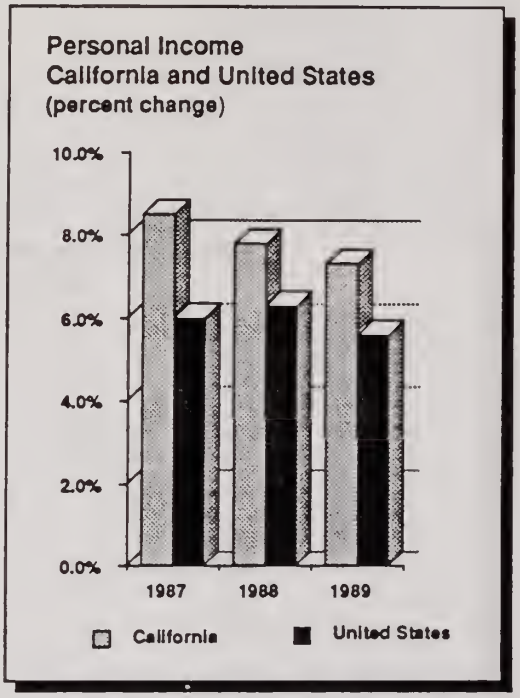
Oil prices have come back into prominence in recent weeks. The firming to more than $18 a barrel — if maintained for several months — could be reflected in a wide range of other industries. The

Finance forecast assumes that oil prices will range between $16 and $20 per barrel over the next year-and-a-half.

The current forecast calls for Consumer Price Increases not significantly different from those underlying the November Budget: a rise of 3.9 percent this year and 4.5 percent in 1989.

The Business Cycle

The question of the next business cycle remains a critical one. An argument can be made for a downturn in 1989. Such a forecast assumes that inflation builds up and interest rates rise sufficiently to curb demand. An opposing view is that the stop-and-go economy of the past two years has accomplished rolling readjustments, which have eliminated potential problems and thereby insured steady growth into the 1990s. Either alternative can be supported on the basis of available data and historical precedent. The Department of Finance outlook currently leans toward the second view.



The National Forecast
(percent change except as noted)

	1988		1989	
	Budget	May Revision	Budget	May Revision
Real GNP	2.1	2.9	2.1	2.1
Personal income	5.1	6.3	5.7	5.6
Corporate profits	-6.1	1.7	4.8	16.2
GNP deflator	3.2	3.2	3.5	4.1
Consumer price index	4.1	3.9	4.4	4.5
New car sales (millions)	9.6	10.4	10.0	10.2
Housing starts (millions)	1.65	1.51	1.60	1.55
Civilian employment	1.8	2.3	2.1	1.5
Unemployment rate (%)	6.3	5.6	6.4	5.7
Wage & salary employment	2.1	3.2	2.1	1.8
Prime interest rate (%)	8.6	8.7	9.1	8.9
Mortgage rate (%)	10.2	10.1	10.4	10.2

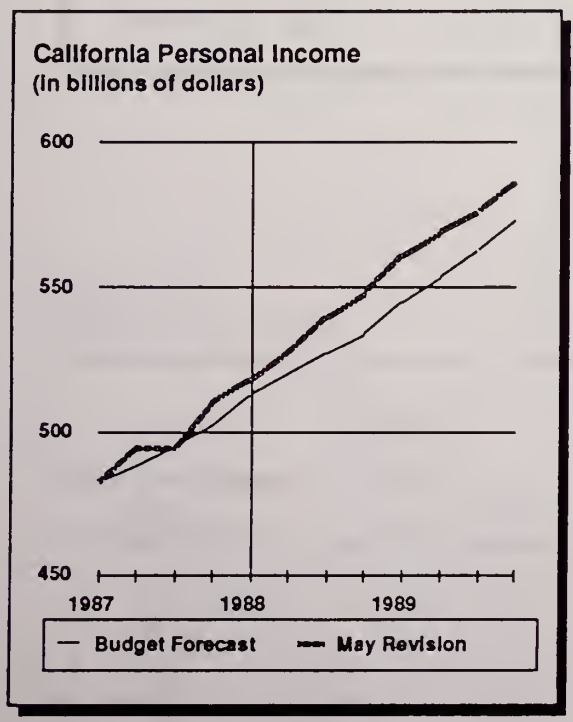
California

In line with the national situation, the California outlook has also improved in the last six months. More complete data for 1987 show stronger gains in both employment and income than were evident late last year, and indications are that this solid growth has continued through the early months of 1988.

Personal income growth in 1987 is now placed at 8.5 percent, rather than the 7.8 percent estimate available in November, when the Budget forecast was prepared. Payroll employment increased 4.0 percent last year, slightly more than the 3.9 percent figure included in the Budget.

Although California's economy typically grows at a faster pace than the nation as a whole, the dominant influence on developments in the State is the national economy. Widespread concern that last October's stock market sell-off would lead, at the very least, to a flattening of growth nationally was largely removed by the well balanced performance during this year's first quarter.

In California, employment data suggest a strengthening of activity, with first quarter payrolls advancing at better than a 5 percent annual rate. In part, this spurt may reflect the State's mild and unusually dry winter weather, which boosted such sectors as construction. Nonetheless, the underlying strength cannot be denied, with gains posted in virtually every major category of employment.



The Forecast

The 1988 slowdown in economic activity has now been essentially removed from the forecast. Both employment and income are expected to be roughly in line with last year's performance. Personal income growth is projected at 7.8 percent this year, more that a percentage point above the Budget forecast. Next year, income gains are forecast to slacken only slightly, to a 7.3 percent advance.

Given the strong first quarter performance, employment growth is forecast at 4.1 percent this year, well above the 2.6 percent gain in the Budget forecast. Next year, some slowing is expected, with payrolls up by 2.9 percent.

The State's unemployment rate, which reached a new 18-year low in March, is forecast to remain fairly stable, varying little from the recent 5 percent mark. This is essentially a "full employment" jobless rate. Firms in the larger metropolitan areas, where rates of 4 percent or less are

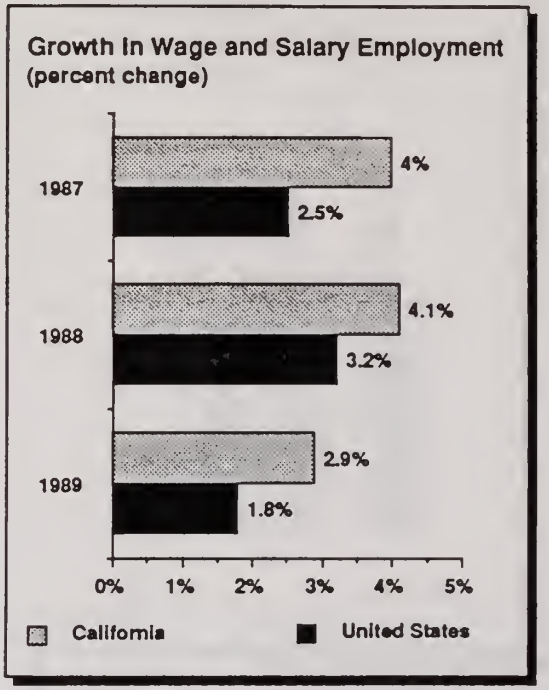
common, are already experiencing difficulty filling positions. This situation is expected to place upward pressure on wages over the next 18 months. A higher per worker wage is the main reason that income gains are maintained despite the slowing of employment growth in 1989.

Strong income gains should continue to support growth in spending by California consumers. Other elements of the Budget forecast, including the expectation that the more favorable dollar exchange rate will boost agriculture, tourism, and electronics manufacturing, remain in the current outlook.

Lower defense spending will lead to some decline in aircraft, missile, and space manufacturing, but export growth and strong domestic business equipment demand should boost electronics activity, with the result that total aerospace employment continues to expand.

There are already signs in building permit data of a drop-off in construction activity, mainly in multi-unit residential and commercial office building. Both of these sectors were affected by the 1986 Federal tax law, and both have experienced a degree of overbuilding in recent years. As a result, construction employment is expected to remain near current levels over the forecast horizon.

Given the favorable experience of the last six months, the pick-up in inflation this year is slightly less than in the Budget forecast. However, higher utility rates, following the dry winter, rising wages, and reports of substantial increases in existing home prices are elements which could boost the price indexes later this year and in 1989.



The California Forecast
(percent change except as noted)

	1988		1989	
	Budget	May Revision	Budget	May Revision
Personal Income	6.5	7.8	6.7	7.3
Nonagricultural Wage and Salary Employment	2.6	4.1	2.8	2.9
Unemployment Rate (%)	5.8	5.0	6.1	5.1
Consumer Price Index	5.0	4.7	4.8	5.0
Housing Units Authorized (Thousands)	220	214	204	224

Revenue

General Fund Revenues and Transfers are now expected to be $32.6 billion in the current year and $36.1 billion in the budget year. This represents a drop from the Budget forecast of $1.1 billion in the current year and $0.2 billion in the budget year, assuming enactment of pending conformity legislation. (See table below.) Income taxes, both personal and corporate, are almost entirely responsible for this shortfall. These downward revisions are occurring despite a stronger economy and reports of higher corporate profits than earlier forecast.

Background

For revenue estimation, there are three special considerations: (1) the residual effect of the National Tax Reform Act of 1986 on taxpayer behavior; (2) the State's conformity to Federal law; and (3) the stock market crash of October 1987. For the most part, these items are not addressed in the economic forecast. Capital gains income, for example, is not even included in the national income accounts.

To help obtain perspective on these and other aspects prior to the preparation of the revenue forecast, the Department of Finance met with a group of tax experts in November 1987. This meeting was held in addition to the usual economic outlook conference and provided input to help gauge taxpayer behavior.

General Fund
Revenues and Transfers
(dollars in millions)

	1987-88	1988-89
Budget Forecast	33,678	36,249
May Revision forecast:	32,609	36,052*
PIT	-1,100	–813
B&C	-210	+100
All Other	+241	+516
Net Change	-1,069	-197

* Assumes enactment of pending legislation (AB 2715 or SB 2294) estimated to increase personal income and bank and corporation revenues by $15 million and $235 million, respectively.

Until March, there were no indications that revenues would be less than predicted. In fact, cash receipts through February were $254 million greater than anticipated, with most of the strength in the personal income tax (PIT) receipts. Further, the Commission on State Finance quarterly forecast released in early April reflected the fact that the economy was running somewhat ahead of expectations.

Corporate Taxes

During 1987, corporate estimated tax payments were made at a very high level, usually indicative of strong profits. Business publications reported good gains in corporate profits nationally. In March, with final payments due from calendar year corporations, it became evident that bank and corporation tax revenues were not meeting Department of Finance expectations.

Personal Income Taxes

Individual estimated tax payments, which usually provide some indication of trends in capital gains, and withholding on wages were strong through March. At the end of April, however, it became evident that personal income tax revenues would also not meet expectations. Cash receipts through April came in $809 million less than expected.

Working Group

The magnitude of the shortfall was sufficient for the Governor to convene a working group to determine the cause of the shortfall. The consensus of this group was as follows:

1. The shortfall is approximately $1 billion through April. The shortfall is manifest in PIT and B&C final payments.

2. There is no clear, conclusive evidence at this time as to the reason for the revenue shortfall.

3. We believe the cause or causes may be found in the following:

a. The effect of Federal tax law change on California taxpayers.

b. Realization of Capital Gains, apart from the effects of (a) and/or (c).

c. The impact of California's conformity with Federal tax law change.

d. A combination of the above.

4. The working group realizes that this list is not exhaustive and other factors may have contributed to the shortfall.

5. It is unclear at this time the extent to which the shortfall is "one-time."

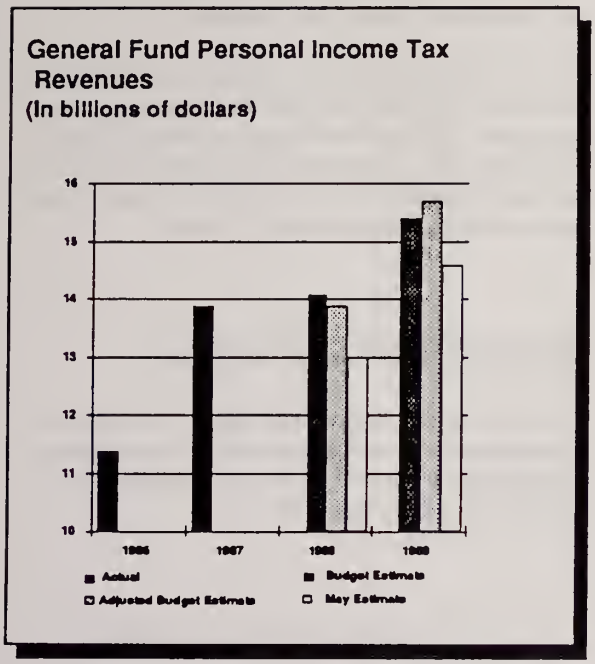
6. However, it would be prudent to assume that at least some portion of the shortfall will be ongoing. This reflects our belief that the uncertainty in the environment is much greater than in prior years.

7. In arriving at our determinations, we considered information from the following sources: tax practitioners, other states, the Federal government, and available tax data.

8. We believe at the present time that there is a greater element of uncertainty surrounding the revenue estimating process than has existed previously.

Department of Finance View

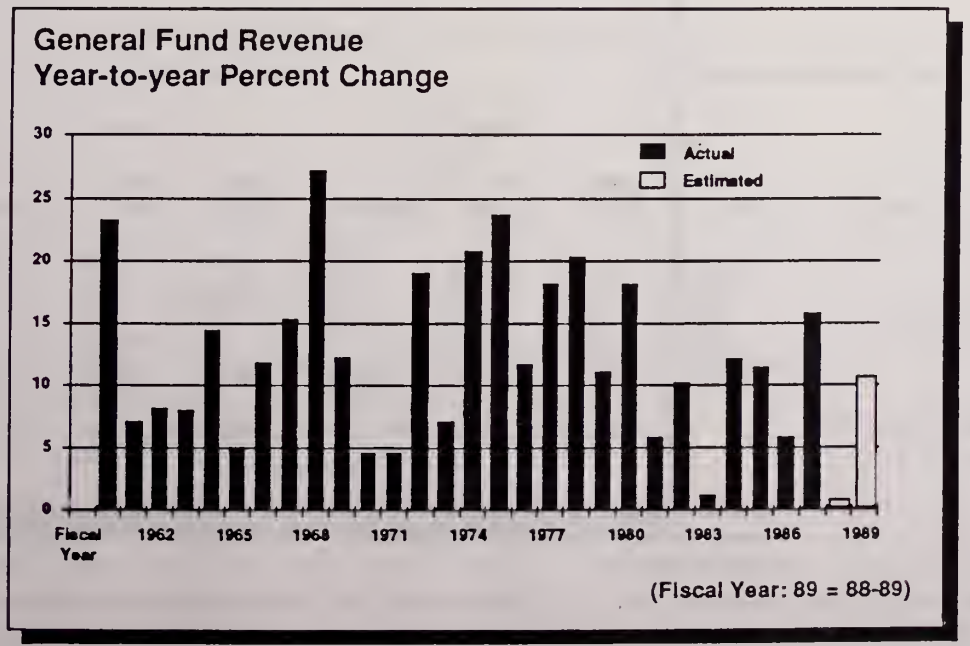
The Department of Finance perspective at this time is that the massive changes in national and state tax laws have been significant contributors to this phenomenal drop in revenues. Not even following recession years has the State experienced such slow growth in revenues. (See table below.)



This revenue shortfall is occurring in the face of a stronger economy than was previously forecast. Adjusting for the improved economic outlook, our current appraisal of the stock market crash, and assuming state tax reform had not been enacted, the personal income tax estimate would have been down in the range of only $200 million instead of the $1.1 billion current year shortfall. We believe that a significant portion of the remaining shortfall can be attributed to tax conformity.

For the personal income tax, it appears that taxpayers may have changed behavior to mitigate the impact of many of the provisions which would have increased liabilities. In addition, provisions which lost revenue were probably more widely used than estimated.

For the bank and corporation tax, there may have been greater losses taken than estimated during the consideration of conformity. Further, it is likely that the base broadening provisions did not provide the anticipated revenue gains.



Corrections

For the personal income tax, we recommend that the 1987 tax rates and brackets be maintained for 1988. This would still provide an increased benefit over pre-1987 law. It is estimated that this structural correction would offset the budget year revenue loss by about $410 million.

For the bank and corporation tax, we recommend suspending for one year the net operating loss provision which allowed losses incurred in 1985 and 1986 to be carried forward for three years. We estimate that this would increase the budget year revenue forecast by about $140 million.

Revenue Estimates

Discussions of the major changes in the estimates for the General Fund are provided on the following pages. General Fund revenue estimates are summarized in the table below.

General Fund Revenue Estimates

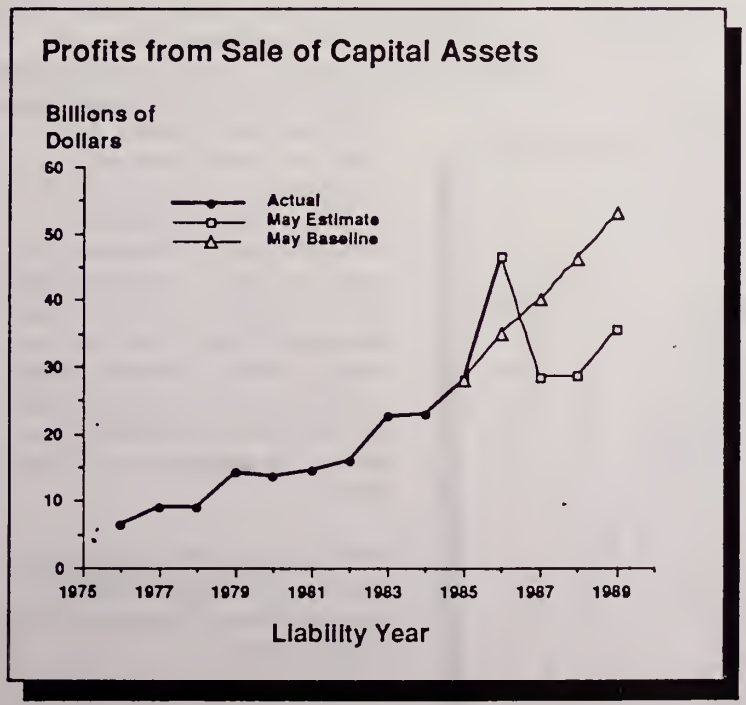
	1986-87	1987-88			1988-89		
Revenues and Transfers	Actual	Budget Estimate	May Revision	Difference	Budget Estimate	May* Revision	Difference
Sales	$10,904	$11,500	$11,660	$160	$12,275	$12,571	$296
Personal Income	13,922	14,100	13,000	-1,100	15,428	14,615	-813
Bank and Corporation	4,801	5,000	4,790	-210	5,415	5,515	100
Other	2,892	3,078	3,159	81	3,131	3,351	220
Total	$32,519	$33,678	$32,609	-$1,069	$36,249	$36,052	-$197
Change from prior year		$1,159	$90		$2,571	$3,443	
Percent		3.6	0.3		7.6	10.6	

*** Assumes enactment of pending legislation (AB 2715 or SB 2294) which is estimated to increase Personal Income and Bank and Corporation revenue by $15 million and $235 million, respectively.**

Personal Income Tax

1987-88 $13,000 million
1988-89 $14,615 million

Personal income tax revenues are estimated to be down from the Budget estimate by $1.1 billion in the current year. For the budget year, revenues will be down $813 million assuming enactment of pending legislation (AB 2715 or SB 2294), which is now estimated to increase revenues for this tax by $15 million. Since the economic forecast has been revised upward from the Budget, it appears that the entire revenue shortfall was due to other factors, such as tax conformity. When the California bill was enacted, it was realized that, given the multitude of changes, there was potential for substantial error. Since there was no data available on many of the items, the estimates were prorations to California from numbers developed at the Federal level. It is now believed that the revenue losses due to tax reform were actually higher than originally thought, while much of the revenue gains were not realized. The current forecast also assumes that sales of capital assets were below earlier expectations and that capital losses were substantially higher, as shown in the following graph.



Sales and Use Tax

1987-88 **$11,660 million**
1988-89 **$12,571 million**

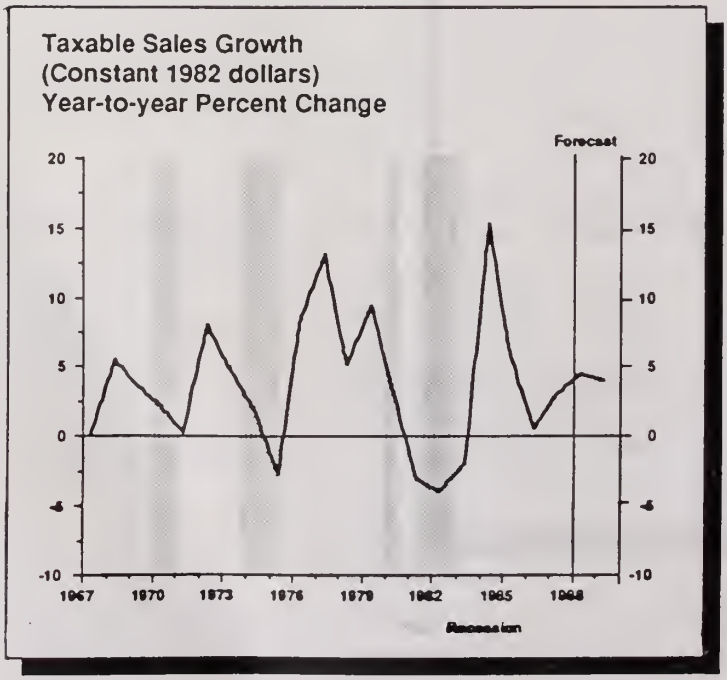
Sales and use tax revenues are estimated to be up from the Budget estimate by $160 million for the current year and $296 million for the budget year. Most of this increase for the current year has already been realized and is attributable to economic factors. 1988-89 revenues have been similarly revised due to the stronger economic outlook, with adjustments for the following three factors.

- The Budget estimate for 1988-89 revenues included a transfer of $48.5 million from the Retail Sales Tax Fund to the Transportation Planning and Development (TP&D) Account. The May Revision assumes that this transfer will be reduced to $23 million.

- The Budget estimate included $100 million in 1988-89 revenues which were estimated to be remitted pursuant to Chapter 1144, Statutes of 1987, which required out-of-state retailers to collect California use tax on mail order sales. It now appears, however, that larger retailers are resisting this action and that they do not intend to comply until Chapter 1144 is proved constitutional or until Federal legislation is passed. Based on this, the estimated General Fund revenue impact of Chapter 1144 has been reduced to $50 million.

- The Federal Omnibus Reconciliation Act specified that the Federal excise tax on diesel fuel be imposed at the wholesale rather than retail level effective April 1, 1988. As a result, state sales tax revenues from diesel fuel sales will increase by approximately $12 million annually. Of this amount, based on calendar year 1988 transactions, $8 million would have been transferred to the TP&D Account during 1988-89. However, because of the General Fund revenue shortfall, it is proposed that all of this revenue be retained by the General Fund.

Before adjusting for these factors, the current estimate for 1988-89 revenues is up $308 million from the budget estimate.



Bank and Corporation Tax

1987-88 $4,790 million
1988-89 $5,515 million

The bank and corporation tax revenues are estimated to be down from the Budget estimate by $210 million in the current year. For the budget year, revenues will be up $100 million assuming enactment of pending legislation (AB 2715 or SB 2294), which is now estimated to increase revenues for this tax by $235 million. There is no detail yet available on the characteristics of the 1987 income year returns. However, considering the increased strength in the economic forecast and high levels of profits reported by business magazines, there is reason to believe that a significant portion of the loss is attributable to recent legislation. Indeed, had the current economic forecast been used for the Budget forecast, the revenue loss would have been greater by $40 million in each year.

Several adjustments mitigated the current year revenue loss. The two major factors were accruals, which are expected to be $33 million greater, and large audit settlements which increased the current year forecast by $54 million.

Other Revenues and Transfers

1987-88 $3,159 million
1988-89 $3,351 million

The major differences from the budget forecast are occurring in the insurance and inheritance taxes.

- For the current year, inheritance tax collections are $75 million below our budget forecast as a result of the Controller's decision to accept property instead of cash as settlement for a large estate.

- The insurance tax is estimated to be increased by $46 million in the current year and $125 million in the budget year, reflecting the recent court ruling on the method of taxing "minimum premium plans."

State Appropriations Limit

In the Governor's Budget presented to the Legislature in January, the Department of Finance estimated that $50 million in State Appropriations Limit room existed in the 1987-88 fiscal year and $24 million in the 1988-89 fiscal year. Since that time, there have been many changes which have affected the Limit and the appropriations subject to it.

Adjustments to the Limit have been primarily the result of shifts in financial responsibility resulting from the receipt of transfer letters from school districts and changes to the adjustment factors resulting from the most current estimates of population, the Consumer Price Index, and per capita income.

Adjustments to appropriations subject to the Limit result primarily from changes to revenue estimates and excludable appropriations, such as debt service costs and subventions to local government.

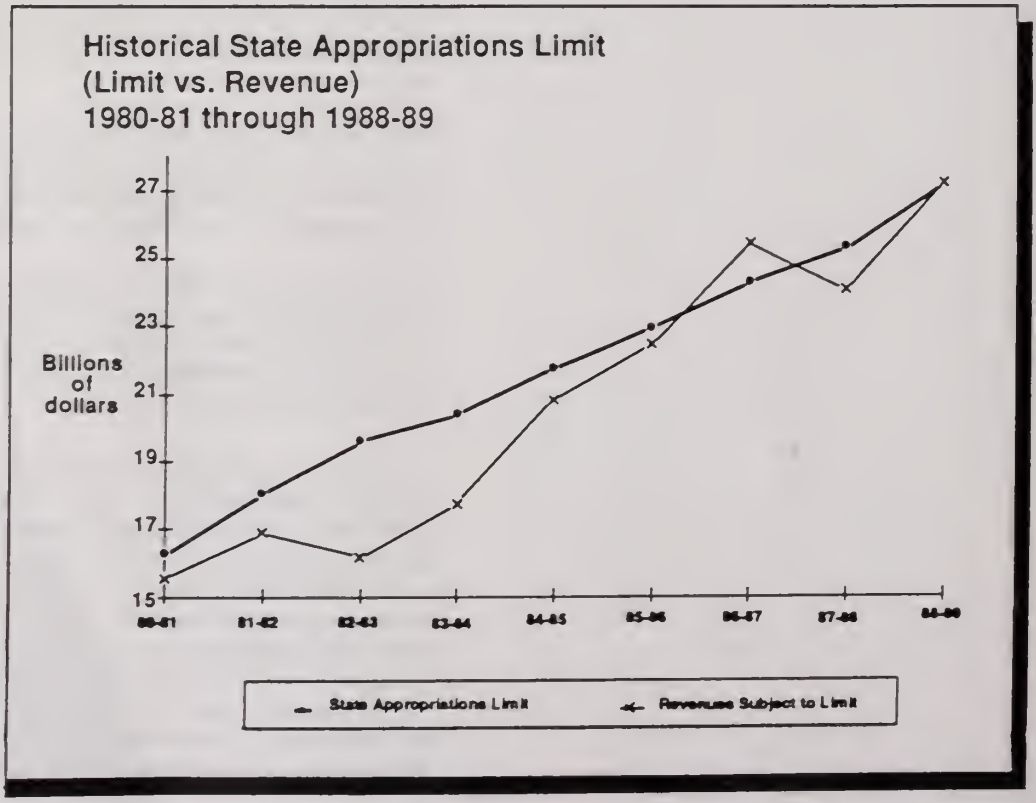
As indicated in the tables on the following page, room within the Limit in the 1987-88 fiscal year has grown to almost $1.2 billion. This increased room can be attributed almost exclusively to the revenue drop in the current year.

In the 1988-89 fiscal year, we are anticipating $75 million in room within the Appropriations Limit. The details working up to our estimates are many, but they consist primarily of revenue reductions under existing law, corrections to the tax law which are proposed as part of the Governor's plan, and equalization measures to allow the State to capture unused Appropriations Limit room within the school district limits. Such a measure was enacted in conjunction with the 1987-88 Budget Act. In addition to equalizing room within

the State/school districts appropriations limits, provisions are also being introduced to correct for inconsistencies in how school districts are computing their limits. Such inconsistencies have resulted in unwarranted reductions to the State's Appropriation Limit. We estimate that $400 million in appropriations limit room can be captured at the State level as a result of this proposal.

State Appropriation Limit
(In Millions)

	1978-79 Base	1979-80	1980-81 Limit	1981-82 Limit	1982-83 Limit	1983-84 Limit	1984-85 Limit	1985-86 Limit	1986-87 Limit	1987-88 Limit	1988-89 Limit
State Appropriation Limit	$12,564	$14,195	$16,237	$18,030	$19,593	$20,369	$21,740	$22,962	$24,311	$25,317	$27,239
Appropriations Subject to Limitation	—	—	-15,535	-16,872	-16,154	-17,737	-20,822	-22,467	-25,449	-24,066	-27,014
Pending Legislation:											
Revenue Correction	—	—	—	—	—	—	—	—	—	—	-$550
Subvention Equalization	—	—	—	—	—	—	—	—	—	—	400
Amount (Over)/ Under Limit	—	—	$702	$1,158	$3,439	$2,632	$918	$495	-$1,138	$1,251	$75



Education

1987-88 $17,692 million
1988-89 $19,019 million
7.5% Increase

Education is the key to California's future and continues to be the highest spending priority of this Administration. The goal of this Administration continues to be to make the California educational system one of the best in the nation.

The total funding level in the Governor's Budget for all educational programs is $24.9 billion, an increase of 74 percent over the term of this Administration. Included within this amount are General Fund expenditures totaling $19 billion, representing an increase of 7.5 percent over the 1987-88 Fiscal Year and 70 percent over the 1982-83 funding level.

Education Expenditures
General Fund, Lottery Funds, State School Fund
Student Fees and Local Revenue Sources
(Dollars in Millions)

	1987-88	1988-89	Percent Increase
University of California*	$2,259.2	$2,405.0	6.4
California State University	1769.6	1875.7	6.0
California Community Colleges	2067.4	2197.2	6.3
Student Aid Commission	121.3	143.6	18.4
K-12	16482.9	17617.2	6.9
State Teachers Retirement System	496.1	557.0	12.3
Other**	87.2	103.3	18.5
Total Expenditures	$23,283.7	$24,899.0	6.9

* For purposes of this table, expenditures for the University of California have been adjusted to include student fees and other offsetting income. This provides consistency in comparing magnitudes and growth among the various segments of higher education.

** Includes General Fund bond interest and redemption payments for higher education.

Higher Education

University of California (UC)

1987-88 -$9.0
1988-89 -$15.4

For the current year, estimated expenditures for UC have been reduced by $9 million. The Administration is proposing to revert the unexpended balance of $1 million in Chapter 432, Statutes of 1987. These funds remain after all expenses related to the Superconducting Super Collider have been paid.

The 1987-88 Budget Act provided $3 million for the operation subsidy for three teaching hospitals. In addition, Budget Act language indicated legislative intent to provide a $5 million deficiency appropriation if needed. The 1988-89 Governor's Budget proposed funding the $5 million deficiency.

The Administration now proposes to amend the 1988-89 Budget Bill to provide the $8 million for the 1987-88 fiscal year operating subsidy in 1988-89 and to delete the 1988-89 estimated $6 million subsidy. The 1988-89 operating subsidy, if any is required, will be funded in the 1989-90 fiscal year budget. This proposal results in reduced 1987-88 expenditures of $8 million and increased 1988-89 expenditures of $2 million.

For the budget year, in addition to the augmentation of $2 million for the teaching hospital subsidy, a General Fund augmentation of $3.0 million is proposed for increased costs related to health benefits. In addition, an unallocated reduction of $20.4 million is proposed to partially offset the unexpected revenue shortfall in the General Fund.

California State University (CSU)

1987-88 —
1988-89 -$13.1

Based on the latest information from the Public Employees' Retirement System, the cost of health benefits will increase by 16.6 percent, rather than the 11 percent forecasted for the Governor's Budget. Based on the new forecast, a General Fund augmentation of $2.3 million is proposed to fund the increased costs associated with CSU employee health benefits. Additionally, an unallocated reduction of $15.4 million is proposed to partially offset the unexpected revenue shortfall in the General Fund. The net effect of these two proposals is a reduction of $13.1 million to CSU's 1988-89 support budget.

California Community Colleges

1987-88 -$14.0
1988-89 - $12.1

Proposed expenditures for the Community Colleges (CC) are being reduced by $14.0 million in 1987-88 and by $12.1 million in 1988-89. These proposed decreases are composed of changes in state operations, apportionments, and local mandated costs.

Current Year

Due to the unexpected shortfall in revenues in the General Fund, the following reductions are necessary. Apportionments are reduced due to savings in funding budgeted for basic skills courses above ADA limits. Of the $11 million budgeted, it is estimated that only $5 million will be allocated. Furthermore, funds set aside for CCs in Section 22.00 for GAIN educational services are reduced from $10 million to $2 million. It is estimated that only $2 million will be needed in the current year.

Budget Year

Highlights of the proposed changes are:

- Decrease of $5.4 million to reflect the effects of the 1986-87 and 1987-88 changes to the ADA base

- Increase of $4.4 million to reflect the increase in the estimate of the change in the State's adult population

- Increase of $7.7 million to reflect lower estimate of available local revenues

- Decrease of $2.4 million to reflect lower estimate of statutory COLA rate of 4.7 percent

- Decrease of $2 million to reflect revised estimate of State-mandated costs of reviewing courses applying toward an Associate Degree

- Elimination of $8.5 million in the Governor's Budget for courses above statutory ADA limits to partially offset the unexpected revenue shortfall in the General Fund

- Reduction of $6 million from the $11 million in the Governor's Budget for basic skills courses above statutory ADA limits to partially offset the unexpected revenue shortfall in the General Fund

Notification of 1987-88 Local Revenue

The Chancellor has certified that, based on First Principal Apportionment (P1) reports and subse-

quent updates, the amount of local revenue that districts will receive in 1987-88 is $592.5 million.

The figures certified reflect only preliminary estimates for all local revenues submitted to the Chancellor by counties. Therefore, for purposes of calculating the amount of revenue available to the CCs in 1987-88, DOF is using its current year May Revision figure of $602.2 million. The accompanying table displays these amounts.

1987-88 Estimates of Local Revenue
(Dollars in Millions)

1987 May Revision	$595.0
Figures Certified by Chancellor	592.5
1988 May Revision	602.2

These local revenue figures serve as the notification required by Education Code Section 84712.

Student Aid Commission (SAC)

1987-88 -$4.5
1988-89 -$0.1

The latest SAC estimate reflects a savings in student financial aid awards of $4.5 million (3.4 percent of total budget) for the 1987-88 academic year. This savings occurred because of greater attrition of student grant renewals than was expected.

Due to the unexpected shortfall in revenues in the General Fund, an unallocated reduction of $142,000 is proposed for the SAC 1988-89 support budget.

Hastings College of the Law

1987-88 —
1988-89 -$0.1

Based on the latest information from the Public Employees' Retirement System, the cost of health benefits will increase by 16.6 percent, rather than the 11 percent forecasted for the Governor's Budget. Based on the new forecast, a General Fund augmentation of $14,000 is proposed to fund the increased costs associated with Hastings College of the Law employee health benefits. Additionally, an unallocated reduction of $126,000 is proposed to partially offset the unexpected revenue shortfall in the General Fund. The net effect of these two proposals is a reduction of $112,000 to Hastings College of the Law 1988-89 support budget.

California Maritime Academy (CMA)

1987-88 —
1988-89 -$0.1

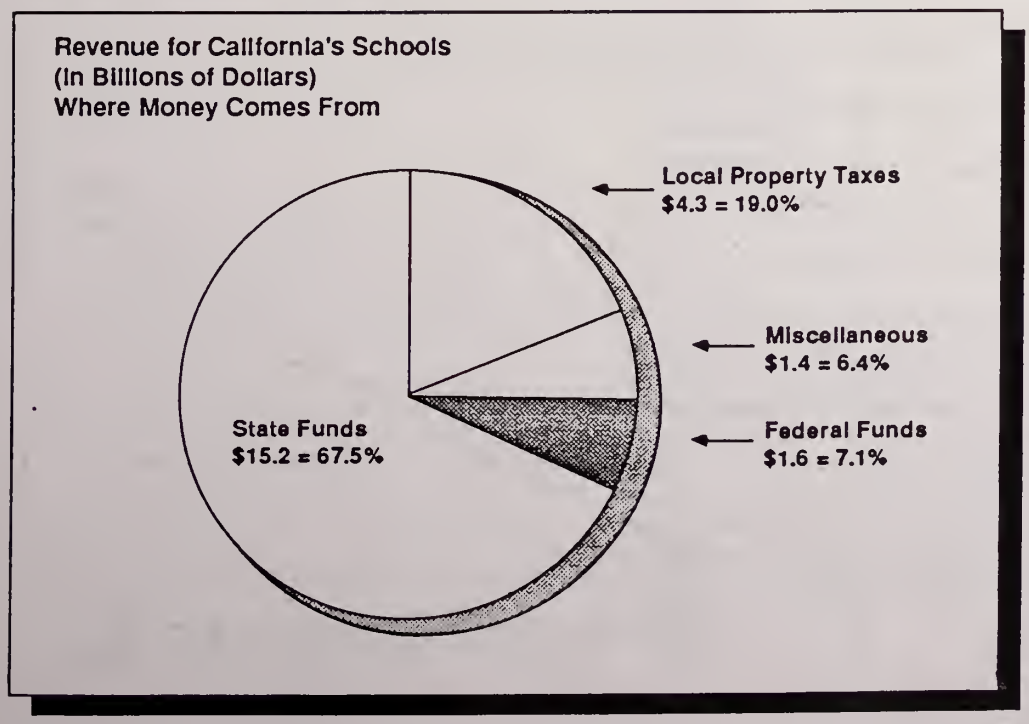
Due to the unexpected shortfall in revenues in the General Fund, an unallocated reduction of $67,000 is proposed for the CMA 1988-89 support budget.

Elementary and Secondary Education

Approximately $22.5 billion of the public's resources will be devoted to the State's public elementary and secondary education system during 1988-89. This represents an increase of 78 percent above the $12.6 billion devoted to K-12 education when this Administration assumed office.

Revenue for the support of K-12 education comes from various sources. Approximately 68 percent ($15.2 billion) is provided by the State. Another 19 percent ($4.3 billion) comes from local property taxes. The remaining 13 percent comes from the Federal government ($1.6 billion) and from miscellaneous local sources ($1.4 billion).

In keeping with the Administration's commitment to improve the quality of K-12 education in the State, the May Revision of the Governor's Budget proposes a funding level of $17.3 billion in State and local funds, an increase of $1.1 billion above the 1987-88 level. This funding will provide the State's public schools with $3,674 per student.



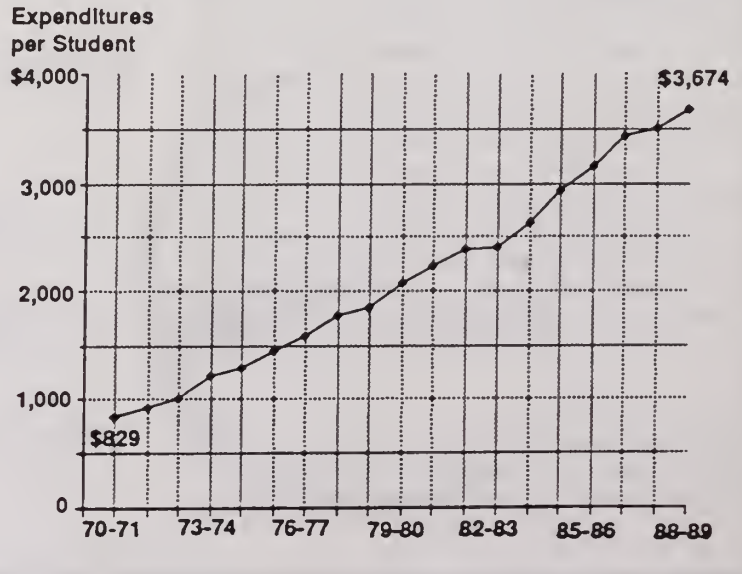
Total Revenue for K-12 Education
1982-83 through 1988-89
(dollars in millions)

Source of Funds	1982-83	1983-84	1984-85	1985-86	1986-87*	1987-88*	1988-89*
State General Fund	$7,742	$8,924	$9,992	$11,072	$12,238	$12,539	$13,513
Lottery Fund				558	411	578	578
Other State Funds	190	213	420	334	757	750	1,145
Federal Funds	1,037	1,215	1,197	1,246	1,345	1,503	1,597
Local Property Taxes	2,462	2,541	2,867	3,195	3,451	3,796	4,019
Local Debt Service	450	444	425	391	338	304	273
Local Miscellaneous	758	803	863	956	1,119	1,305	1,433
Total Revenue	12,639	14,140	15,764	17,752	19,659	20,775	22,558

*Estimates

Expenditures per student will have increased from $829 to $3,674 between 1970-71 and 1988-89. The 1988-89 expenditures per student, in real terms, will be 54.3 percent higher than in 1970-71. Of particular significance, real expenditures per student will have increased from $2,798 in 1982-83 to $3,533 in 1988-89. This represents a 26.3 percent increase in real expenditures per student during the first six budgets of this Administration. In comparison, real expenditures per student declined by three percent, from $2,881 to $2,798, during the six years before this Administration assumed office.

K—12 Expenditures Per Student
1970-71 To 1988-89



Department of Education (K-12)

1987-88 -$36.2
1988-89 -$48.9

Current Year

Revenue Limits

In January, the Governor's Budget forecasted savings in 1987-88 of $21.1 million for K-12 which were proposed to be used to offset the projected current year deficiencies in the desegregation and county offices of education programs. Currently, we are forecasting a savings of $41.4 million in district apportionments and a $2.8 million savings in county offices of education, rather than the deficiency projected in January. No deficiency is forecast for the desegregation program.

The primary reasons for the projected savings in district revenue limit apportionments are:

- Decreased estimates of average daily attendance (ADA) ($8.3 million).

- Decreased funding requirements for summer school due to lower-than-expected participation ($0.8 million).

- A small decline in the necessary small school adjustment ($0.7 million).

- An increase in local revenue primarily due to unanticipated growth in both secured roll and supplemental roll ($19.6 million).

- A revised estimate of savings due to the PERS rate reduction ($15.4 million).

These projected cost savings were offset by:

- Increased funding for the meals for needy pupils program ($2.4 million).

- Other net increases ($1.1 million).

For county offices of education, the $2.8 million reduction in expenditures primarily reflects the lower growth rate in ADA for juvenile court schools ($2.8 million) and reduced costs for direct services and other services to districts ($0.8 million). An increase in the PERS reduction ($0.2 million) contributed to the savings. Other net savings were $0.8 million. Offsetting these decreased expenditures were decreased local revenues ($1.1 million) and other net costs of $0.7 million.

Other Deficiencies

A deficiency of $103,000 is recommended for home-to-school transportation due to adjustments to past year claims. A deficiency of $122,000 is also recommended to fully fund services to adults in correctional facilities.

Another recommended deficiency is for an additional $570,000 to be transferred from the Driver Training Penalty Assessment Fund to cover an increase in Driver Training population and in average costs per Driver Training. While this increased cost does not result in a higher General Fund expenditure level, it will reduce the amount of revenue transferred to the General Fund pursuant to Section 24.10 by $570,000.

A special education deficiency of $20.8 million is projected, due to a shift in units between special day class and resource specialist ($1.5 million), an increase in non-severely handicapped aide time ($0.9 million), other increases due to population growth ($4.7 million), an increase in extended year programs ($5.8 million), an increase in the number of nonpublic school placements ($5 million), and unrealized cost savings related to noneducational services for handicapped students (AB 3632) ($5.4 million). In addition to these increases, there were offsetting decreases in prior year corrections, longer day and year incentives and special purpose funds ($2.5 million). The offsetting revenues to special education were lower than expected; however, they are expected to increase the second principal apportionment (P2).

The Department of Education has indicated that five of the eight federal audit exceptions previously pending either before the Federal Education Appeals Board or the Federal Courts have had decisions issued. The total amount of these decisions is $5,235,694. As payments for these judgments cannot be made with federal funds, DOF has proposed a deficiency appropriation.

For the YRS Incentive Program, we are projecting a $17.5 million current year deficiency. The deficiency is proposed to be funded from the Lease-Purchase Fund. This projection is based on the amount of additional ADA that is certified as eligible by the Office of Local Assistance (OLA) for YRS incentive payments. $2.6 million of this amount is to fund a 1986-87 deficiency. The 1987-88 appropriation for the YRS program is $15 million and, with this additional demand, will total $32.5 million.

Reversions

We also are anticipating the following reversions to partially offset the unanticipated shortfall in current year General Fund revenue: Section 22.00 funding for GAIN remedial education ($16 million), GAIN remedial education matching funds ($1.2 million), school business personnel training ($.3 million), and library automation ($.74 million).

Budget Year

For 1988-89, the May Revision reflects a net decrease in expenditures of $48.9 million. These expenditures reflect increased costs for adult education in correctional facilities ($0.1 million), teacher discipline hearings ($12 thousand), district revenue limits ($56.9 million), pending school performance accountability legislation ($3.5 million), an augmentation for GAIN child care ($2.1 million), home-to-school transportation ($0.1 million), and special education ($24.7 million).

These increased expenditures are partially offset by decreases for statutory and discretionary cost-of-living allowances (COLAs) (-$42.5 million), county office apportionments (-$9.8 million), court-ordered desegregation claims (-$29.6 million), voluntary desegregation ADA adjustment (-$0.4 million), a transfer of funds to DSS (-$5.4 million), and other minor adjustments (-$0.1 million). In addition, the Administration is proposing reductions of $48.6 million (described below) to partially offset the unexpected revenue shortfall in the General Fund.

The major causes of the increase in district revenue limit apportionments are:

- Increased estimates of ADA ($14.8 million).

- Increased costs for remedial summer school associated with unanticipated growth in summer school ADA ($1.8 million).

- An increase in the meals for needy pupils program ($1.3 million).

- A decrease in local revenue due primarily to a projected decline in the growth rate for secured and unsecured taxes ($28.0 million).

- An increase in apportionments to reimburse districts for 1987-88 PERS mandated costs that, under current law, cannot be funded from the 1987-88 appropriation.

The increased expenditures were partially offset by a decrease in excess taxes ($4.1 million) and other savings ($0.3 million).

For county offices of education, the projected savings of $9.8 million is primarily due to lower than anticipated ADA growth in the juvenile hall schools ($8.9 million). Other net savings were $2.2 million. Expenditures saw a rise due to a projected reduction in local revenues ($0.9 million), increased expenditures in direct services and other services ($0.3 million), and other net increased costs ($0.1 million).

An increase of $100,000 is necessary for adult education in correctional facilities to reflect an increase in the number of school districts that qualify for reimbursement at the maximum allowable rate.

An increase of $3.5 million is proposed to fund pending school performance accountability legislation which is jointly sponsored by the Superintendent of Public Instruction and the Administration. The program will identify and help improve low performing schools; $1.5 million will be spent in state operations and $2 million for local assistance.

An increase of $103,000 is proposed to fully fund home-to-school transportation entitlements. This reflects the ongoing increase associated with the current year deficiency.

The amount to be transferred from the Driver Training Penalty Assessment fund is proposed to be increased by $1.1 million to fund an increase in enrollment in the Driver Training Program and an increase in the average costs reimbursed per participant. This will reduce General Fund revenues, but will not affect General Fund expenditures for K-12 education.

Statutory and discretionary COLAs are reduced from 4.37 percent to 4.10 percent ($42.5 million) due to a decline in the State and Local Government Deflator Index.

Estimated reimbursements for court-ordered desegregation programs are expected to increase for the statutory population adjustment by $0.6 million in 1988-89. In addition the Governor's Budget had anticipated carrying forward a current year deficiency of $18 million. Based on the most recent data from the State Controller's Office, no current year deficiency exists, resulting in a similar decrease in projected budget year expenditures.

The Governor's Budget also anticipated reimbursements of $30 million for prior year claims from Los Angeles Unified School District. At this time, the State Controller's Office is prevented by statutory limitations from approving $12 million of those prior year claims.

Voluntary desegregation reimbursements will decrease due to population adjustments by $388,000.

The DOF approved a General Fund augmentation of $2.1 million for the Child Care Program related to funding child care in the Greater Avenues for Independence Program (GAIN). Although previously anticipated to be supported by reimbursements from the Department of Social Services, the General Fund has been used to support this child care for the past two years.

Forecasted 1988-89 expenditures for special education have increased by $24.7 million due to the 1987-88 increase in base entitlements ($3.9 million) and continued funding of the current year deficiency ($20.8 million). In addition to this increase, a reduction of $5.4 million is proposed to provide the permanent transfer of funds to the Department of Social Services as required in AB 3632.

The Governor's Budget proposes $15 million from the Lease-Purchase Fund in 1988-89 for the YRS program. However, because of additional ADA projected to be eligible for the YRS payments, it is estimated that a total demand of $30 million will be certified by the Office of Local Assistance in 1988-89. This will require a $15 million augmentation from the Lease-Purchase Fund to fund this program.

Reductions

In addition to the adjustments discussed above, reductions of $48.6 million are proposed to partially offset the unexpected revenue shortfall in the General Fund. These include reductions of statutory COLAs above 4.1 percent to that level (-$5.7 million), teacher and school business office professional development (-$5.0 million), mentor teacher support costs (-$5.0 million), Serrano equalization (-$20.0 million) and instructional materials (-$10.0 million), Public Library Foundation (-$0.5 million), State Library administration (-$0.23 million), State Special Schools (-$1.2 million) and Department of Education state operations (-$0.97 million).

Contributions to Teachers' Retirement Fund

1987-88 -$4.0
1988-89 -$2.08

Current year expenditures for the maintenance of Purchasing Power Protection are expected to be $4 million less than anticipated in the Governor's Budget. As of June 30, 1988, these funds will be reverted to the General Fund. In addition, the $6 million current year savings proposed to be reappropriated in 1988-89 will be deleted and those funds will be reverted in the current year.

In the budget year, General Fund expenditures are expected to be $2.08 million less than was anticipated in the Governor's Budget. This reduction has two components. First, the amount required for Purchasing Power in the Governor's Budget was based on a California Consumer Price Index (CCPI) of 5.1 percent. The May Revision estimate of the CCPI is 5.15 percent. The Purchasing Power funding based on 5.15 percent would have required an increase in the funding; however, the number of recipients has decreased. The net effect of the CCPI adjustment and the reduced number of recipients is a total reduction of $2.2 million. (We note, however, that because the $6 million reappropriation is no longer available, an augmentation of $3.8 million is being requested.) Second, Education Code Section 23401 requires a statutory contribution to the Teachers' Retirement Fund in 1988-89. The increase of the CCPI to 5.15 percent will require an increase of $0.12 million.

Health and Welfare

1987-88	$10,512.6
1988-89	$11,397.3
	8.4% increase

The services provided through Health and Welfare programs improve the quality of life for millions of Californians. Individual programs offer a wide range of services and are directly concerned with the physical, mental and social well-being of the citizens of this State.

For 1988-89, the General Fund expenditures for Health and Welfare programs total $11.4 billion. This represents an increase of 63 percent over the term of this Administration. Included in this 1988-89 figure is an additional net $90.9 million in General Fund in recognition of revised caseload increases in 1988-89.

Department of Alcohol and Drug Programs

1987-88	—
1988-89	-$0.4

Due to the unexpected shortfall in revenues in the General Fund, a reduction of $0.4 million is being proposed for the Department of Alcohol and Drug Programs to reflect a one-time fund shift of $270,000 from the General Fund to the Audit Repayment Trust Fund in the Department's State operation's budget and the reduction of $144,000 for two lower priority budget change proposals originally approved in the fall for administrative positions.

Department of Health Services — Medi-Cal

1987-88	$1.3
1988-89	$45.1

In 1987-88, Medi-Cal expenditures are anticipated to increase to reflect two major federal audit settlements. The first repays $26.3 million (revised amount) in federal funds claimed between 1983 and 1985 for services to persons under the age of 65 in Institutions for Mental Disease (IMD). Federal regulations do not provide federal funding for skilled nursing services provided to any person under the age of 65 in an IMD. The Governor's Budget contained $25.5 million for settlement of

this audit in 1988-89. However, a later federal decision required repayment in 1987-88. The second audit settlement repays $7.4 million in federal funds for fee-for-service payments made on behalf of individuals enrolled in prepaid health plans between 1980 and 1985. Medi-Cal now has procedures which prevent duplicate payments of this kind from being made.

These costs are partially offset by savings of $4.3 million to reflect delayed implementation of SB 175. This bill is sponsored by the Administration to implement the federal Omnibus Reconciliation Act of 1986 (OBRA) which extends Medicaid coverage for emergency services to undocumented aliens and persons with temporary visas. The Governor's Budget assumed an effective date of February 1, 1988 for SB 175. This has now been revised to October 1, 1988. Additionally, current year costs are further offset by a reduction in utilization of $28.1 million. The net effect of all these changes is an increase in Medi-Cal expenditures of $1.3 million in 1987-88.

In 1988-89, proposed Medi-Cal expenditures include $33.8 million to provide a rate increase to long-term care facilities including State hospitals, skilled nursing facilities, and intermediate care facilities. This increase is based on actual costs projected through 1988-89. The adjustment is made annually to account for recurring cost increases.

In addition, $22.6 million is included to comply with the federal Consolidated Omnibus Reconciliation Act of 1985 (COBRA). COBRA requires states to repay the federal portion of overpayments made within 60 days after discovery, unless the overpayment is uncollectable due to bankruptcy or the dissolution of a business, regardless of collection or appeal status. This will accelerate repayments in 1988-89.

The delay in the assumed effective date of SB 175, to October 1, 1988, results in savings of $17.4 million in 1988-89. Other adjustments include $6.4 million to reflect an estimated rate increase of 3.3 percent in capitated contracts for prepaid health plans, county operated health systems, primary care case management systems, and the Redwood Health Foundation. An increase of $3.0 million is included to reflect increased utilization and other caseload factors.

In addition, due to the unexpected shortfall in revenues in the General Fund, the Cost-of-Living Adjustment (COLA) granted to AFDC recipients is proposed at 4.1 percent effective January 1, 1989 (rather than 4.7 percent effective July 1, 1988). This change reduces 1988-89 Medi-Cal expenditures by $3.3 million compared to the amount proposed in the Governor's Budget as amended by Department of Finance Letters. The net effect of all these changes is an increase in Medi-Cal expenditures of $45.1 million in 1988-89.

Finally, an additional $20 million will be set aside for payment of the Los Angeles County Audit settlement in 1988-89. The Governor's Budget reflected payment of this amount in 1987-88. However, it now appears more likely that the necessary legislation will be enacted after June 30. Therefore, the revised expenditure estimate for 1988-89 will include a set-aside for this amount.

Department of Health Services — Public Health

1987-88	$0.5
1988-89	-$18.3

In the current year, caseload and utilization increases in the California Children's Services (CCS) ($0.5 million) and Genetically Handicapped Persons Program (GHPP) ($0.1 million) have resulted in an estimated increased cost of $0.6 million. The Child Health and Disability Prevention (CHDP) program has also incurred increased costs which are estimated to be $0.7 million as a result of an immunization rate increase and an increased number of health assessments. Offsetting these increases is a $0.8 million estimated increase in recoveries, including Medi-Cal Aid to the Totally Disabled (ATD), by the County Medical Services Program (CMSP).

In the budget year, caseload increases, primarily for 13-29 month old children in the CHDP, result in an increased cost of $1.6 million. Reductions in the estimated caseload for CCS and GHPP result in a surplus of $0.2 million. Increased recoveries projected from Medi-Cal ATD and underexpenditures for provider payments in prior years have reduced costs in the CMSP for the medically indigent in small counties by $2.2 million. The revised population and COLA for the County Health Services Program (AB 8) result in a net decrease of $2.2 million.

Also in the budget year, a reduction of $0.3 million in General Fund and $0.3 milllion in federal funds is requested due to the delay by the federal government in approving the AIDS Medi-Cal

waiver, under which AIDS patients will become eligible to receive home health, attendant, and hospice services as an alternative to acute care.

In addition to the above caseload issues, the following budget year General Fund changes are proposed: (1) an increase of $1.4 million to fund studies of the effects of tap water on pregnancy outcomes in Santa Clara, Sacramento and Los Angeles Counties; (2) a funding shift of $5.6 million from the General Fund to the federal fund for Maternal and Child Health programs to reflect the availability of additional federal funds; (3) a one percent unallocated reduction to the Department of Health Services' State operations budget totaling $1.5 million; (4) a reduction of $0.9 million in the $1.3 million augmentation to contract with the Attorney General for legal services; (5) a reduction of $0.1 million for unanticipated AIDS special studies in light of the substantial increase in the special studies budget; (6) reductions of $4.3 million to the AB 8 program and another $23,500 to the CMSP to reflect funding for revised COLAs of 4.1 percent; and, (7) a $4 million reduction in the amount of funding to be reappropriated from Chapter 1463, Statutes of 1986 for AIDS vaccine research based on revised information that indicates only $2 million may be necessary for clinical trials in 1988-89.

Department of Developmental Services

1987-88 —
1988-89 -$16.5

This estimate reflects a net General Fund reduction for the budget year of $16.5 million. This reduction is based on: (1) an increase of $7.8 million for Regional Center caseload changes; (2) an increase of $3.9 million to the case management estimate; and (3) a reduction of $22.3 million to reflect the impact of the Medi-Cal long-term care rate adjustment. In addition, due to the unexpected shortfall in revenues in the General Fund, the budget proposes the following reductions to proposals which were originally included in the January budget: (1) miscellaneous reductions totaling $2.0 million in the Regional Center budget related to the expansion of the Regional Resource Development Project ($752,000), adjustments for assessment changes ($700,000), and the Community Placement Plan ($500,000); (2) a reduction of $3.4 million and 101.5 personnel years for the developmental centers' coverage factor; and (3) a reduction of $0.5 million of the $1.5 million recurring maintenance augmentation for the developmental centers.

Department of Mental Health (DMH)

1987-88 $2.5
1988-89 -$0.9

In the current year, the DMH will incur an estimated deficiency of $2.5 million in the Institutions for Mental Disease (IMD) item based on actual collections and adjustments for increases in share of cost and receipt of other revenues.

A reduction of $0.9 million in expenditures for the budget year is proposed to reflect: (1) various changes in the IMD program ($4.8 million) and (2) the continued funding for the Ventura project ($1.4 million) which provides a community-based interagency system of comprehensive services to seriously emotionally disturbed children. In addition, due to the unexpected shortfall in revenues in the General Fund, the budget proposes the following reductions for proposals originally included in the fall budget: (1) miscellaneous reductions totaling $0.5 million for technical overbudgeting issues and (2) a reduction of $6.6 million and 183.9 personnel years for the State hospitals' coverage factor.

Department of Rehabilitation

1987-88 -$4.5
1988-89 -$3.3

The current year revision reflects a reduction in caseload for the Work Activity (WAP) and Supported Employment (SEP) Programs. The Department estimated an overall average current year caseload of 14,417 for WAP and 3,243 for SEP. Based on current year actual data, this has been revised to 13,660 (-757) for WAP and 3,135 (-108) for SEP. This results in current year savings of $4.5 million.

Overall expenditures in the budget year are estimated to be reduced by $3.3 million as a result of caseload changes in local assistance programs and an unallocated reduction in support. The budgeted caseload level for 1988-89 of 18,243 clients is reduced by 521 for a revised budget year caseload of 17,722. This adjustment includes a reduction in the basic WAP of 1,146 clients and an increase in SEP of 625 clients. This results in an overall caseload reduction of 521 at a savings of $3.1 million. In addition, due to the unexpected shortfall in revenues in the General Fund, a one percent unallocated reduction of $0.2 million is proposed in the Department's State operations budget.

Department of Social Services (DSS)

1987-88	$14.8
1988-89	$0.4

In the current year, expenditures are expected to increase by $14.8 million from the Governor's Budget. This increase results from the following factors: (1) increased costs of $16.4 million related to caseload for the Aid to Families with Dependent Children (AFDC) program; (2) increased costs of $6.8 million in the AFDC-Foster Care Program related to Group Home rates and changes in other program assumptions; (3) reduced level of GAIN savings of $17.2 million resulting from revised assumptions and delays in county implementation; (4) an increase to the SSI/SSP deficiency of $7.1 million due to caseload increases; (5) savings in the Social Services programs of $30.1 million primarily attributed to caseload changes in the Child Welfare Services (CWS) and the In-Home Supportive Services (IHSS) programs, as well as revised assumptions related to the IHSS program; and (6) other program and caseload adjustments accounting for savings of $2.6 million.

The revision in the budget year is a net increase of $0.4 million. This can be attributed to changes in the AFDC program of $57 million due to: an increase in AFDC and Foster Care caseload ($30.7 million); an increase to reflect the impact of the *Welfare Recipient's League v. Woods* court case ($18.2 million); an increase due to the reduced level of reimbursements for the Refugee Resettlement program ($8.9 million); and various other decreases related to other AFDC program changes ($0.8 million). The changes in the SSI/SSP costs of $17.5 million are due to: an increase in caseload ($11.6 million); an increase due to an adjustment in the SSI COLA offset for January, 1988 and January, 1989 ($3.9 million) and other miscellaneous increases in SSI/SSP ($2.0 million). Other changes in the DSS May Revision account for a reduction of $18.8 million. This is attributed to: a reduction in the IHSS program resulting from lower than anticipated caseload, along with various other revised assumptions ($14.7 million); a reduction in the CWS program attributed to revised caseload estimates and changes in program funding assumptions ($6.1 million); and changes related to various other program areas accounting for a net increase ($2.0 million).

The May Revision also proposes to change the effective date and the percentage increase in the COLA for AFDC recipients. In 1988-89, it is proposed that the COLA for AFDC recipients be

effective January 1, 1989 and that the percentage increase be limited to 4.1 percent. The impact of this change in the budget year will reduce expenditures by $54.5 million.

In addition, due to the unanticipated shortfall in General Fund revenues, a one percent unallocated reduction is proposed in the Department's State operations budget. The specific reduction would amount to $800,000.

Greater Avenues for Independence (GAIN) Program

1987-88	-$9.8
1988-89	$1.7

The Department of Social Service's current year expenditures for the GAIN program are expected to be $9.8 million less than budgeted. This represents the amount of unallocated funds in Section 22.00 of the 1987 Budget Act. These unexpended funds will revert to the General Fund June 30, 1988.

The Governor's Budget includes $244.8 million General Fund to fund activities associated with the GAIN program in 1988-89. The major changes in the GAIN program included in the May Revision relate to the updated county implementation dates and the changes in the attrition rate for persons entering the education services component of the program. In addition, the May Revision recognizes the availability of an additional $1.7 million in Adult Education growth funds that will be dedicated to the program. Finally, the May Revision proposes, to the extent that additional current year savings materialize, a reappropriation of up to $2 million in the DSS Employment Services Program for county one-time costs of implementing the GAIN program.

Youth and Adult Correctional

1987-88	$1,885 million
1988-89	$2,124 million
	12.7% increase

Youth and Adult Correctional programs continue as a high priority for 1988-89. Including the revisions described below, total General Fund support for these programs will be increased from $1,885 million for 1987-88 to $2,124 million for 1988-89 — an increase of 12.7 percent. These program costs will support projected growth in the State's combined inmate and ward populations of 7,770, from 80,116 on June 30, 1988, to 87,886 on June 30, 1989.

Department of Corrections

1987-88	-$9.3
1988-89	-$28.6

The reduction in current year costs of $9.3 million includes:

- $3.8 million due to delayed activation of Return-to-Custody facilities.

- $0.6 million due to a lower parole caseload than projected in the Governor's Budget.

- $4.9 million in new prison activation costs which are delayed to the budget year.

- minor adjustments for various changes in scheduled overcrowding activations and deactivations.

These lower current year costs will reduce the previously approved General Fund deficiency reported to the Legislature from $86.3 million to $77.0 million.

Program cost reductions of $32.2 million and cost increases of $3.6 million for spring population and program adjustments are combined for a proposed net reduction of $28.6 million (General Fund) for the budget year.

The population and program adjustments include:

- $1.0 million for the institutions program to provide for new prison start-up costs delayed from the current year ($4.9 million), for reduced inmate bed savings for the intensive parole supervision program ($4.0 million), and for various overcrowding activations/deactivations to reflect a reduction in the year-end inmate population of 2,605, from the 80,975 as proposed in the Governor's Budget to a spring projection of 78,370 (-$7.9 million).

- $1.3 million for the paroles program to provide for an increase in year-end parole population of 2,325, from the 52,760 proposed in the Governor's Budget to a spring projection of 55,085 ($2.9 million) and for reduced program costs for the intensive parole supervision program ($1.6 million).

- $1.3 million for a pilot project to determine the impact of increased narcotics testing on parolee criminality.

In addition to these population adjustments, the following reductions totaling $32.2 million are proposed to partially offset the unexpected revenue shortfall in the General Fund:

- $7.5 million for recurring facility maintenance costs to be shifted from the General Fund to 1988 Bond funds.

- $2.9 million to limit budget year facility maintenance costs to the current year level of $17.9 million.

- $3.9 million and 64.9 personnel years to reflect the reduction in parole supervision caseload for those parolees who are released to federal hold prior to deportation.

- $17.9 million as an unallocated reduction.

Parole Boards

1987-88	—
1988-89	-$0.3

Due to the unexpected shortfall in revenues to the General Fund, unallocated reductions of $205,000 and $61,000 are proposed for the Board of Prison Terms and the Youthful Offender Parole Board, respectively.

Department of the Youth Authority

1987-88 —
1988-89 -$9.6

General Fund reductions totaling $9,649,000 are proposed for the Department of the Youth Authority for the budget year including:

- A net reduction of $2,484,000 to reflect a lower year-end institution population of 9,516, or 166 less wards than proposed in the Governor's Budget, a slightly lower Youth Authority parole population (-87), an increased "M-Case," or adult felon parole population (+111), and funding for contracted temporary parolee detention beds.

- An increase of $150,000 in reimbursed educational equipment costs supported by the Federal Education Consolidation and Improvement Act.

- An unallocated reduction of $7,165,000 to partially offset the unexpected revenue shortfall in the General Fund.

Business, Transportation and Housing

The Business, Transportation and Housing Agency's primary objectives are to strengthen California's business and housing climates and develop a safe and effective transportation system. To meet these goals, expenditures for programs under the direction of the Agency total more than $4.8 billion for all funds.

Since the introduction of the Governor's Budget, a net expenditure increase of over $20 million has been proposed, primarily in special funds. This proposed net increase is despite the reductions due to the shortfall in General Fund revenues.

Department of Alcoholic Beverage Control

1987-88 —
1988-89 -$0.4

In the current fiscal year, the department received an additional $3.3 million to fund 64 new positions (50 investigator and 14 clerical). The hiring of the investigators has been slower than anticipated and the department expects that $100 thousand of savings will continue in the budget year. In addition, an unallocated reduction of $335 thousand is proposed to partially offset the General Fund revenue shortfall.

Department of Corporations

1987-88 —
1988-89 -$0.3

Due to the shortfall in General Fund revenues, the proposal to shift $348 thousand from reimbursements to the General Fund will be delayed one year.

Department of Commerce

1987-88 —
1988-89 -$0.3

The department will make an unallocated reduction of $330 thousand due to the shortfall in General Fund revenues.

1987-88 —
1988-89 -$11.0 (SAFCO)

The Governor recently announced a new Competitive Technology Program within the department to boost California's leadership in creating new industries and products. This program will provide for grants to enable the State to identify, create and fund projects that transfer technological knowledge to the private sector. It is proposed that this program be funded by redirecting $10 million of the $21 million (SAFCO) set aside in the Governor's Budget for the Sematech project. The remaining $11 million of the set aside is proposed to be redirected for other priority areas.

Department of Housing and Community Development

1987-88 —
1988-89 -$0.1

Due to the shortfall of General Fund revenues, the department will make an unallocated reduction of $127 thousand.

Department of Transportation

1987-88 —
1988-89 -$1.0 (TP&D)

Due to the shortfall in General Fund revenues, a reduction of $1 million (TP&D) in support for the Department of Transportation's rail and transit services is proposed for 1988-89. The $1 million reduction has been reflected as increased General Fund revenues.

Natural Resources

The Resources Agency is responsible for the protection of California's uniquely rich and diverse natural resource base. The Agency, through a broad spectrum of programs, ensures the preservation, sound management, and wise use of California's water, fish, wildlife, forest, mineral, and recreational resources.

California Conservation Corps

1987-88 —
1988-89 -$1.0

The 1988-89 May Revision proposes a $964,000 reduction to the proposed Homeless Program due to the unexpected General Fund shortfall. This will retain sufficient funding to provide for a 100 corpsmember augmentation.

Department of Forestry and Fire Protection

1987-88 -$2.7
1988-89 -$6.9

The current year revision is due to a reduction in the previously proposed deficiency for the early start of the fire season. The original deficiency authorized $5.1 million; however, expenditures are now estimated to be $2.1 million, resulting in a savings of $3 million. In addition, a deficiency authorization has been approved for $0.3 million for employee compensation funding for contract employees of the six contract counties and the U.S. Forest Service which provide fire protection services on State responsibility lands.

The budget year revision reflects an increase of $0.4 million to fund 1988-89 employee compensation increases for the contract employees of the six contract counties and the U.S. Forest Service, and a reduction of $7.3 million resulting from the elimination of the separate emergency fire suppression funding. Funding for emergency fire suppression will be provided through budget language being proposed for Control Section 12.30 related to the Special Fund for Economic Uncertainties.

Department of Fish and Game

1987-88 —
1988-89 ($0.9)

The 1988-89 May Revision proposes an $870,000 increase from the Fish and Game Preservation Fund (FGPF) for the final loan repayment to the General Fund. This reflects the remaining unscheduled repayment of the $2 million loan made for the FGPF from the General Fund in 1985.

California Coastal Commission

1987-88 —
1988-89 -$0.4

The 1988-89 May Revision proposes a total program reduction for the budget year of $417,000. Of this amount, $127,000 reflects an unallocated reduction to partially offset the unexpected General Fund revenue shortfall and $290,000 reflects the elimination of operational costs for support of the Santa Barbara and Santa Cruz district offices. Funding for these two offices was eliminated during the 1987 Budget Bill veto process. The 1987 Budget Act veto message stated that workloads from these two offices could be handled through the San Francisco and Los Angeles offices. However, the Commission has chosen to redirect funding from other areas to keep these offices open. This proposed reduction would again capture savings from the elimination of those offices and direct the Commission to conduct the activities for the areas serviced by Santa Cruz and Santa Barbara from the San Francisco and Los Angeles offices.

Department of Parks and Recreation (DPR)

1987-88 —
1988-89 -$0.5

The budget year revision reflects a reduction of $0.5 million due to the unexpected General Fund revenue shortfall. This represents the amount of General Fund increase proposed for DPR in the Governor's Budget for a price increase.

Resources Agency

1987-88 —
1988-89 -$1.3

A two percent unallocated reduction is proposed for the following departments:

Conservation	-$152,000
State Lands Commission	-287,000
Water Resources	-859,000

Other Governmental Entities

In addition to those agencies discussed previously in this document, California government includes a number of very diverse departments which provide a wide variety of services and programs. This section includes changes to those departments and programs found in the Legislative, Judicial, and Executive; State and Consumer Services; and General Government sections of the budget.

Department of Consumer Affairs

1987-88 —
1988-89 ($13.0) (Transfer)

The 1988-89 May Revision proposes a transfer of $13,000,000 from the Vehicle Inspection Fund to the General Fund effective June 30, 1988. This transfer is proposed due to the unexpected shortfall of General Fund revenues. After this transfer, the Vehicle Inspection Fund is projected to have a year-end reserve of $9,000,000. This level of reserve is sufficient to accommodate program operations.

Franchise Tax Board

1987-88 —
1988-89 -$1.0

The 1988-89 May Revision proposes a reduction of $1,000,000 in operating expenses and equipment for the Franchise Tax Board due to the unexpected shortfall in revenues in the General Fund. This reduction will have a minimal affect on the Board's ability to generate revenue for the General Fund.

Department of General Services

1987-88 —
1988-89 -$16.2

The 1988-89 May Revision proposes the reappropriation of $15,303,000 budgeted in 1987-88 from the Special Account for Capital Outlay (SAFCO) for asbestos removal and underground storage tank removal and a corresponding reduction in 1988-89 General Fund expenditures in the Department of General Services. A total of $15,303,000 proposed in the current year for asbestos abatement and underground tank removal will be unexpended at the end of the year due to unanticipated delays in starting some of the removal projects. In addition to this reappropriation, an unallocated reduction of $928,000 is proposed to partially offset the unexpected shortfall in the General Fund.

Judiciary

1987-88 —
1988-89 -$20.9

For the budget year, General Fund reductions totaling $20,942,000 are proposed for the Judiciary.

- Elimination of $20,688,000 from the General Fund for the Trial Court Improvement Program. Although we support the need for this program, the severity of the anticipated General Fund shortfall requires implementation be deferred until 1989-90.

- A reduction of $254,000 from the General Fund from the Senior Judges Program because funding for three of nine positions is already included in the budget. We concur with this action, which has already been taken by the legislative fiscal subcommittees.

Department of Justice

1987-88 —
1988-89 -$2.2

Due to the unexpected shortfall in revenues in the General Fund, an unallocated reduction of $2,191,000 is necessary. In addition, a $1 million transfer from the Fingerprint Fees Account to the General Fund is proposed. After this transfer, it is estimated that $2,334,000 in reserve will remain in the Account at year-end 1988-89.

State Controller's Office

1987-88 —
1988-89 $0.27

It is proposed that the budget for the State Controller's Office be increased $869,000 to augment the Unclaimed Property Program. California is one of 38 states participating in a nationwide unclaimed property clearinghouse. The expenditure of $869,000 in the budget year has the potential of yielding approximately $4.0 million for the General Fund.

It is also proposed that the Controller's Office budget be increased $779,000 to establish 9.9 personnel years to provide support to the Public Employees' Retirement System's (PERS) self-insurance program.

In addition to the augmentations discussed above, a reduction in the State Controller's Office budget of $1,378,000 is proposed to partially offset the unexpected revenue shortfall in the General Fund.

Board of Equalization

1987-88 -$0.8
1988-89 -$1.0

As a result of the Board of Equalization's participation in the early retirement program, an additional $826,000 in salary savings will be realized in the current year. This results from high-level retirees' vacant positions being filled internally. Therefore, many more unanticipated positions became vacant, which generated the additional savings.

For the budget year, due to the unexpected shortfall in revenues in the General Fund, the following reductions totalling $1 million are proposed:

- $365,000 related to headquarters workload growth.

- $239,000 for a contract with Alameda and Fresno County Transportation Authorities related to the administration of transportation authority taxes.

- $37,000 related to maintenance of the Assessors' Handbook.

- An unallocated reduction of $359,000.

Secretary of State

1987-88 —
1988-89 -$.04

An augmentation of $415,000 is proposed for increased expenditures for acquisition and installation of the Uniform Commercial Code Optical Disk System. In addition to the augmentation discussed above, an unallocated reduction of $458,000 is proposed to partially offset the unexpected revenue shortfall in the General Fund. The net impact of these two proposals is a reduction of $43,000.

Commission on State Mandates

1987-88 -$12.1
1988-89 —

It is proposed that a new item be added to the Budget Bill for the Commission on State Mandates to provide language to revert $12,084,000 which was appropriated in the 1987 Budget Act for the reimbursement of State mandated local costs associated with underground storage tanks.

In County of Los Angeles, et al., v. the State of California, et al., 43 Cal. App. 3d 46 (1987), Appelate Court held that State mandates are programs unique to local government; it is now generally agreed that the local underground tanks program is not a State mandate. Accordingly, the 1988-89 Governor's Budget does not contain any funding for the program and neither fiscal subcommittee which reviewed the Commission on State Mandates budget added funding for that purpose. The State Controller's Office reports they have not begun to process claims received in late November 1987 against the 1987 appropriation. In view of the current pressures on the General Fund, we are proposing to revert the $12,084,000 to the General Fund.

Tax Relief —Senior Citizens' Property Tax Deferral Program

1987-88 —
1988-89 $1.0

It is proposed that the budget for Tax Relief — Senior Citizens' Property Tax Deferral Program be increased $1,000,000 to provide for increased participation in the Senior Citizens' Property Tax Deferral Program.

The Senior Citizens' Property Tax Deferral Program was expected to decrease in size to $6 million in 1988-89. An outreach effort by the State Controller's Office to increase participation in this program has been more successful than anticipated, and it is now expected that program expenditures in the budget year will be $7 million.

Health Benefits for Annuitants

1987-88 —
1988-89 $6.3

It is proposed that the budget for Health Benefits for Annuitants be increased $6,279,000.

The proposed General Fund increase is intended to provide sufficient health benefit funding for retired State employees. This adjustment is due to an overall increase in projected health benefit costs based on plans approved by the Public Employees' Retirement System and increased enrollment due to the impact of the 1987-88 Early Retirement Program.

Debt Service

1987-88 -$20.0
1988-89 $84.0

A reduction in bond sales has contributed to a $20 million saving in current year. An increase in the Revenue Anticipation Notes sales will cost an additional $84 million in the budget year (which will be offset by $117 million in arbitrage revenue).

Department of Industrial Relations

1987-88 —
1988-89 -$1.0

A reduction of $1.0 million from the General Fund to reflect the elimination of a one-time adjustment in Personal Services for lower salary savings is necessary due to the unexpected shortfall in revenues in the General Fund.

Department of Food and Agriculture

1987-88 —
1988-89 -$0.75

An unallocated reduction of $746,000 from the General Fund is necessary due to the unexpected shortfall of revenues in the General Fund.

Statewide Disaster Relief Funding

1987-88 —
1988-89 $21.0

We propose to revert $26,059,000 of the unobligated balance in the following appropriations for disaster relief funding:

Disaster Relief Funding — Unobligated	
Ch. 1 x — Community Colleges	-$1,200,000
Ch. 1 x — State University Program	-569,000
Ch. 2 x — Department of Social Services	-8,800,000
Ch. 7 x — Local Agency Program	-15,300,000
Ch. 7 x — State Agency Program	-190,000

In addition, we propose that $5,081,500 be used for disaster relief inthe following areas of need:

Ch. 3 x — Private Non-Profit Program	$1,691,500
Ch. 7 x — K-12 School Program	3,390,000

The net effect of these actions is to return $20,977,500 to the General Fund.

General Government

1987-88 —
1988-89 -$1.6

Due to an unexpected shortfall in General Fund revenues, a two percent unallocated reduction is proposed for the following:

State Public Defender	-$144,000
Office of Administrative Law	-57,000
California Arts Council	-57,000
Agricultural Labor Relations Board	-142,000
Public Employment Relations Board	-123,000
Military Department	-417,000
Department of Finance	-522,000
Department of Personal Administration	-149,000

Legislative, Judicial and Executive

1987-88 —
1988-89 -$4.5

Due to the unexpected shortfall in revenues in the General Fund, a two percent unallocated reduction is proposed for the following:

Legislature	- $3,261,000
Auditor General	-197,000
Legislative Counsel Bureau	- 363,000
Governor's Office	-152,000
Office of Planning and Research	-76,000
Office of Emergency Services	-314,000
Lieutenant Governor's Office	-30,000
State Treasurer	-124,000

State and Consumer Services

1987-88 —
1988-89 -$1.0

The 1988-89 May Revision proposes reductions totalling $970,000 for various departments within the State and Consumer Services Agency. Due to the unexpected shortfall in revenues, an unallocated reduction of two percent is necessary within the following departments:

Museum of Science and Industry	-$182,000
Fair Employment and Housing	-216,000
State Fire Marshal	-89,000
State Personnel Board	-431,000
Veterans Affairs Headquarters	-52,000

Environmental Affairs Agency

1987-88 —
1988-89 -$1.0

A two percent unallocated reduction is proposed for the following departments:

Waste Management Board	-$90,000
Air Resources Board	-135,000
Water Resources Control Board	-825,000

General Fund
Budget Update
1987-88 and 1988-89
(Dollars in Millions)

	Amount	
	1987-88	1988-89
PRIOR YEAR BALANCES	$675.0	$81.7
REVENUES AND TRANSFERS:		
As of January 10, 1988	$33,678.4	$36,248.5
May Revision Adjustments	-1,069.5	-196.1
Tax Conformity Correction	—	550.0
Total Revenues and Transfers	32,608.9	36,602.4
TOTAL RESOURCES	33,283.9	36,684.1
EXPENDITURES:		
As of January 10, 1988	33,342.6	36,100.5
May Revision Adjustments	-140.4	-17.3
TOTAL EXPENDITURES	33,202.2	36,083.2
RESERVES:		
Carryover Appropriations	$28.8	—
Economic Uncertainties	52.9	600.9
TOTAL RESERVES	$81.7	$600.9

General Fund Expenditures

Program	1987-88	1988-89	Dollar Change	Percent Change
Education				
K-12	$12,533.7	$13,505.3	$971.6	7.8
University of California	1,897.7	2,022.9	125.2	6.6
California State University	1,743.3	1,849.3	106.0	6.1
California Community Colleges	1,312.4	1,399.0	86.6	6.6
Other Higher Education	205.2	243.0	37.8	18.4
Total Education	$17,692.3	$19,019.5	$1,327.2	7.5
Health and Welfare	$10,512.6	$11,397.3	$884.7	8.4
Business, Transportation, and Hou	$77.5	$61.8	-$15.7	-20.3
Youth and Correctional	$1,895.8	$2,124.4	$228.6	12.1
Resources	$684.5	$688.7	$4.2	0.6
Other	$2,339.6	$2,791.5	$451.9	19.3
Total	$33,202.2	$36,083.2	$2,881.0	8.7